CERTIFICATE OF NEED EVALUATION OF THE APPLICATION SUBMITTED ON BEHALF OF COMMUNITY HOME HEALTH & HOSPICE PROPOSING TO ESTABLISH A 12-BED HOSPICE CARE CENTER TO SERVE THE RESIDENTS OF COWLITZ COUNTY

BACKGROUND INFORMATION

Community Home Health and Hospice (CHHH) is a not-for-profit entity that has been providing hospice services to the residents of Cowlitz County and surrounding areas since at least 1984. CHHH is Medicare certified and is located at 1035 - 11th Avenue in the city of Longview. CHHH also operates a 12-bed inpatient hospital located at the same site. Below is a background summary related to CHHH's establishment of its 12-bed inpatient hospital. [source: Application, pp1-5 and CN historical files]

February 18, 1983	CN #719 was issued to CHHH approving the establishment of a four-bed hospice facility.
April 8, 1986	CHHH established its four-bed hospice facility in 1984. At the time of the establishment of the hospice facility, there was not separate licensure for inpatient hospice beds; therefore, the four hospice beds were licensed as acute care hospital beds under Revised Code of Washington (RCW 70.41).
April 23, 1993	The Certificate of Need Program provided written acknowledgement that an increase of hospice beds from four to 12 did not require prior Certificate of Need review and approval.
January 1, 2002	During the year 2000 legislative session, the state legislature passed House Bill #2520 which established new, separate licensure for hospice care centers. As part of that legislation, existing licensed hospitals providing the equivalent of hospice care were given a "window of opportunity" to change their license type from acute care hospital to hospice care center without obtaining prior Certificate of Need review and approval. This process, known as "grandfathering", required existing hospitals to obtain their hospice care center licensure by July 1, 2002. CHHH did not take advantage of this window of opportunity.
August 27, 2004	As follow-up to a telephone conversation with a representative of CHHH, the Certificate of Need Program provided CHHH a letter stating that the opportunity for obtaining "grandfathering" status related to hospice care center licensure for its 12-bed inpatient hospice facility expired on July 1, 2002. As a result, CHHH must submit a Certificate of Need application prior to obtaining hospice care center licensure under WAC 246-335.

PROJECT DESCRIPTION

Generally, the services provided at a hospice care center are the same services provided through a hospice agency. The main difference between a hospice care center and a hospice agency is where the patient receives the services. In the case of a hospice agency, hospice services are provided in the patient's home or current residence. For hospice care centers, the hospice services are provided in the care center rather than in the patient's home. Services currently provided at CHHH inpatient hospice, include symptom and pain management to terminally ill patients, as well as emotional, spiritual, and bereavement support for the patient and the patient's family. [source: Application, pp5-6]

CHHH's current hospital would remain at its existing location--at 1035 - 11th Avenue in the city of Longview. It would also maintain 12 beds and continue to provide the same services currently provided. This project does not propose any changes other then the change in licensure as described above.

If approved, the applicant anticipates this project would commence immediately and be complete within six months of approval. Further, there is no capital expenditure associated with converting the 12-bed acute care hospital into a 12-bed hospice care center. [source: Application, p1; January 13, 2006, supplemental information, p1]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

APPLICATION CHRONOLOGY

October 13, 2005	Letter of Intent Submitted
November 4, 2005	Application Submitted
December 1, 2005, through February 22, 2006	Department's Pre-Review Activities • 1st screening activities and responses • 2nd screening activities and responses
February 23 2006	Department Begins Review of the Application • Public comments received throughout the review • No public hearing requested or conducted
March 30, 2006	End of Public Comment
April 14, 2006	Rebuttal Documents Submitted to Department[1]
May 18, 2006	Pivotal Unresolved Issue (PUI) Declared
May 30, 2006	Applicant's Response to PUI[2]
June 30, 2006	Department's Anticipated Decision Date
June 21, 2006	Department's Actual Decision Date

[1] Given that no comments were provided during the review of this project, CHHH did not provide rebuttal comments.

[2] WAC 246-310-090 allows any affected person to comment on documents received by the applicant under PUI. Given that there were no affected persons for this project, no comments were received on the documents.

CONCURRENT REVIEW AND AFFECTED PARTIES

As directed under WAC 246-310-295(3), the department accepted this project under the hospice care center concurrent review cycle. No other hospice care center applications were submitted for Cowlitz County during the 2005 concurrent review cycle. In accordance with WAC 246-310-295(5), when applications initially submitted under a concurrent review cycle are deemed not to be competing, the department has converted the review to the regular review process. Therefore, this application was converted to a regular review.

Throughout the review of this project, no entities sought or received affected person status under WAC 246-310-010.

SOURCE INFORMATION REVIEWED

- Community Home Health and Hospice's Certificate of Need Application received November 4, 2005
- Community Home Health and Hospice's supplemental information dated January 13, 2006, and February 13, 2006
- Community Home Health and Hospice's Pivotal Unresolved Issue responses dated May 23, 2006
- Population data obtained from the Office Financial Management based on year 2000 census published January 2002.
- Licensing and/or survey data provided by the Department of Health Office of Health Care Survey
- Certificate of Need Historical files

CRITERIA EVALUATION

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment); and 246-310-295 (hospice care center standards).[3]

CONCLUSION

For the reasons stated in this evaluation, the application submitted on behalf of Community Home Health and Hospice proposing to establish a 12-bed hospice care center in the city of Longview, within Cowlitz County is consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need should be issued. There is no capital expenditure associated with this project.

[3] Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6); WAC 246-310-220(2) and (3); and WAC 246-310-240(2)and (3).

A. Need (WAC 246-310-210)

Based on the source information reviewed, the department determines that the criteria in WAC 246-310-210 (need) and WAC 246-310-295 (hospice care center standards) are met.

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.

The department uses the methodology found in WAC 246-310-295 in determining need for a hospice care center within a planning area. The six-step methodology is used to demonstrate that an existing hospice's patient base is sufficient to support a hospice care center by using existing use rates for hospice services, average number of resident deaths by planning area (county) for the most recent three years, and the projected population of the planning area.

The applicant applied the six-step methodology outlined in WAC 246-310-295 and provided documentation to demonstrate that CHHH's existing hospice patient base is sufficient to support a hospice care center. Using the required minimum occupancy rate of 65%, the applicant projected a patient base that could support 30 hospice care center beds. [source: January 13, 2006, supplemental information, pp2-3] WAC 246-310-295 limits the number of beds in a hospice care center to 20; this application requests approval for 12 beds. [source: Application, p2]

The department also applied the methodology, evaluated the assumptions provided by the applicant, and determined that the applicant's projections are reasonable, and the documentation effectively demonstrates the potential patient base for the proposed hospice care center.

Additionally, WAC 246-310-295(8) sets forth minimum occupancy requirements and requires a demonstration of maintaining the minimum occupancy rate at the hospice care center. CHHH provided documentation to demonstrate its ability to meet these occupancy requirements. [source: Application, p3]

WAC 246-310-295(9)(a) requires no more than 49% of the hospice agency's patient care days, in the aggregate on a biennial basis, can be projected to be provided in the hospice care center. CHHH provided documentation to demonstrate its ability to meet this standard. [source: Application, p3]

CHHH is the only provider of Medicare certified in-home hospice services serving Cowlitz County; the nearest hospice care center is operated by Southwest Washington Medical Center and is located in the city of Vancouver, within Clark County. [source: CN historical files] The availability of a hospice care center in Cowlitz County would allow reasonable access to the services for CHHH patients and would promote continuity of care for those patients requiring hospice services at a care center. Further, approval of this project would not affect the availability of the current in-home hospice services provided by any of the in-home hospice agencies serving adjacent counties.

Based on the information provided in the application, the department concludes that the population to be served has a need for a hospice care center in Cowlitz County, and this sub-criterion is met.

(2) *All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.*

As previously stated, CHHH is an existing Medicare certified hospice agency and has been providing hospice services to Cowlitz County residents since at least 1984. To demonstrate compliance with this sub-criterion, CHHH provided a copy of its existing admission and charity care policies that are used by both the hospice agency and the existing inpatient hospital.

The Admission Policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility, and any assurances regarding access. Further, CHHH's existing Admission Policy demonstrates that patients are admitted for treatment without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity. [source: Application, Exhibit F; January 13, 2006, supplemental information, Attachment 9]

The Charity Care Policy confirms that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups currently have access to hospice services through CHHH. The applicant also provided a description of the process one must use to access charity care at CHHH. [source: Application, Exhibit F; January 13, 2006, supplemental information, pp3-4]

To determine whether low income residents would have access to CHHH's hospice care center, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. CHHH's inpatient hospice facility is currently Medicare certified and Medicaid eligible and the applicant has demonstrated that the care center would maintain its eligibility if this project is approved. [source: January 13, 2006, supplemental information, Attachment 9]

The department concludes that approval of this project would not negatively affect the access to the hospice services provided through the agency, and the proposed hospice care center would be available to all residents of the service area. This sub-criterion is met.

B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed, the department determines that the financial feasibility criteria in WAC 246-310-220 are met.

(1) *The immediate and long-range capital and operating costs of the project can be met.*

As previously stated, there is no capital expenditure associated with converting the 12-bed acute care inpatient hospital into a 12-bed hospice care center. Using the existing hospice facility's year 2003 through 2005 historical number of patients, CHHH projected the number of hospice patients it would serve in years 2006 through 2008. Given that CHHH is not requesting to add beds to the facility, CHHH anticipates only a slight increase in the number of patients, revenues, and expenses through year 2008. CHHH's projections are shown in Table I on the following page. [source: February 13, 2006, p3]

Table I
Community Home Health and Hospice
Projected Revenue and Expenses for the Hospice Care Center

	Year 1-2006	Year 2-2007	Year 3-2008
Total Patient Days	3,011	3,071	3,102
Total # of Patients	424	433	437
Percentage of Utilization	69%	70%	71%
Total Net Revenue*	$ 1,561,391	$ 1,623,847	$ 1,671,051
Total Expenses	$ 1,636,851	$ 1,669,588	$ 1,702,980
Net Profit or (Loss)	($ 75,460)	($ 45,741)	($ 31,929)
Total Revenue PPD	$ 518.56	$ 528.77	$ 538.70
Total Expenses PPD	$ 543.62	$ 543.66	$ 548.99
Net Profit Patient Day	($ 25.06)	($ 14.89)	($ 10.29)

*Total Net Revenue does not include deductions for bad debt or charity care

As shown in Table I above, CHHH anticipates a loss in each of the first three years of operation as a licensed hospice care center. A review of CHHH's historical financial data reveals CHHH made a slight profit in year 2003; and for years 2004 and 2005, CHHH operated at a considerable loss. Further, year 2003 through 2005 historical data indicates that CHHH identify any provisions for bad debt or provide any charity care.

During the course of reviewing the financial documents provided by the applicant and summarized above, the department identified a need for further documentation related to this sub-criterion. On May 18, 2006, the department declared a pivotal unresolved issue (PUI) [WAC 246-310-160(2)(b)]. Under the PUI, the department requested clarification related to the assumptions and methodology used to prepare the financial projections for the hospice care center. Consistent with the timeline identified in the PUI notice, CHHH provided the following responses related to the projected financials summarized above. The responses are restated, in part, below. [source: May 23, 2006, PUI responses, pp1-2]

- *Using 2005 as a base, we applied a 2% across the board inflationary assumption for expenses in 2006, 2007, and 2008. Revenues were inflated 4%, 4% and 3% respectively. This assumes cost increases of 2% per year and higher utilization of 2%, 2% and 1% (respectively) with off-setting efficiencies in staffing and control of other costs. No increase in staffing is proposed and other costs are spread over slightly higher census.*
- *We changed our allocation method in 2005. Prior to that we did not allocate down to the hospice care center, but put those allocations in the agency-wide hospice program. Items that we could specifically identify went to the hospice care center. Allocations were based on direct wages of the programs. We have improved our overhead cost allocation practices in recent years so that organizational costs could be identified and migrated to specific programs in our agency. The changes in methodology for overhead costs have created year-to-year variances in specific line-items.*
- *The "bottom line" margin in the hospice care center shows $0 for 2004 through 2008. The margin has traditionally been negative. Our* [charity care] *policy* [provided within the application*] is to provide care to anyone who needs it and qualifies under our admission criteria, regardless of lack of insurance or underinsurance. Our definition of underinsurance is that the payment we receive from* [patients'] *insurance does not fully*

cover the cost of providing care. Therefore, the "donations/charity care funding" figure is exactly equal to the actual or projected losses sustained in the hospice care center. Donations/charity care funding would be zero if the care center actually ended the year with positive margin. The rationale behind this is simply using the community's support to fund deficit operations because insurers (primarily Medicare) do not pay the cost of the insured patient's care. We have systems in place to track charity care funding that is for free service. We had about $3,000 in the first quarter of this year. At this point in time, we define charity care as both free service as well as negative margin resulting from inadequate payments by insurers.

As explained in the PUI information above, CHHH has historically provided charity care to the residents of Cowlitz County through both its hospice agency and the existing inpatietn hospital. Further, the financial loss in historical years 2004 and 2005 is off-set by community donations. CHHH receives large financial donations from the community, which are divided between the hospice agency and the 12-bed hospital to cover any deficit at the end of the year. This financial support currently used by CHHH is shown in the historical and projected financial documents as a source of revenue. Using the applicant's methodology and assumptions outlined above, further review of the detailed pro forma financials indicates that CHHH would be operating at a break-even for the hospice care center by the end of the fifth year of operation, without the assistance of donations. This is further substantiated by a decrease in the community donations line item even though CHHH included cost allocations from the hospice agency through year 2008.[4]

Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be met, and the department concludes this sub-criterion is met.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed, the department determines that the structure and process (quality) of care criteria in WAC 246-310-230 are met.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

As an operational 12-bed facility, all staff is already in place and no additional staff will be necessary if this project is approved. Table II on the following page shows the current staffing of the hospital.

[4] Cost allocations represent the inpatient hospital's fair share of the hospice agency's non-revenue producing expenses (such as administration).

Table II
Community Home Health and Hospice Current FTEs

Type of Personnel	FTEs
RN	9.96
Hospice Aide	8.32
MSW/Bereavement	1.00
Volunteer Coordinator	0.20
Cook	0.50
Housekeeping/Maintenance	1.16
Pharmacist	0.10
Chaplain	0.20
Medical Director	0.30
OT/PT/ST/Dietitian	0.10
Total FTEs	**21.84**

CHHH states that staffing at the existing hospital is based on patient census and care needs. Additionally, to meet the hospice care center standards under WAC 246-335, CHHH provided documentation to demonstrate that currently there is at least two staff available--one RN and one CNA--24 hours per day, 7 days per week. Further, the facility uses a pharmacist to provide on-site consultation and to ensure that pharmaceutical services are available 24 hours per day to provide medications and supplies. [source: January 13, 2006, supplemental information, pp5-6] Based on the documentation provided, the department concluded that CHHH's staffing model is consistent with the staffing requirements under hospice care center rules--WAC 246-335-155(14) and WAC-246-335-175.

Stanley Norquist, MD is currently the medical director for the existing agency and hospital and will remain in that capacity if this project is approved. CHHH provided a copy of the current contract between itself and Dr. Norquist for the medical director services. The contract outlines the roles and responsibilities of both CHHH and Dr. Norquist, and identifies any compensation for medical director services. Further, all costs associated with the medical director services are substantiated within the pro forma financials within the application. [source: Application, Exhibit B]

Based on the information provided in the application, the department concludes that sufficient staff is available for the hospice care center, and this sub-criterion is met.

(2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

CHHH has been providing in-home hospice services to the residents of Cowlitz County through its existing hospice agency and its acute care licensed hospital since approximately 1984. Hospice care centers provide patients and their families with an alternative when the patient's symptoms or family circumstances necessitate hospice care in a setting other than the patient's residence. If this project is approved, CHHH expects its hospice patients would continue have access to the least restrictive level of hospice care in a home-like environment at a new site.

As an existing hospice agency and hospital, CHHH has well-established relationships for ancillary and support services already in place. Within the application, CHHH states that some ancillary and support services are currently provided through PeaceHealth St. John Medical Center, an acute care hospital located in Cowlitz County. Additional ancillary and support services are provided for laundry and respiratory therapy. CHHH states that approval of this project would not affect any ancillary and support services already being provided through any of its current agreements. Further, approval of this project would ensure hospice patients receive appropriate hospice services regardless of whether the patient receives hospice services through the agency or the care center. [source: Application, p18; January 13, 2006, supplemental information p6]

Based on the information provided, the department concludes that appropriate relationships with ancillary and support services are currently maintained, and this sub-criterion is met.

(3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.

As stated in the project description portion of this evaluation, CHHH provides Medicare and Medicaid hospice services through its existing Medicare certified agency and its 12-bed hospital. Within the most recent five years, the Department of Health's Office of Health Care Survey (OHCS), which surveys hospice agencies and hospital within Washington State, has completed two compliance surveys for CHHH's hospice agency[5] and three compliance surveys for the 12-bed hospital.[6] The surveys revealed minor non-compliance issues typical for the type of facility, and CHHH submitted plans of correction for the non-compliance issues. [source: Compliance survey data provided by Office of Health Care Survey]

As previously stated, Stanley Norquist, MD is currently the medical director for the existing agency and inpatient hospital, and will remain in that capacity if this project is approved. [source: Application, Exhibit B] To ensure compliance with this sub-criterion, the department reviewed the compliance history for Dr. Norquist with the Department of Health's Medical Quality Assurance Commission. That review resulted in no recorded sanctions for Stanley Norquist, MD. [source: compliance history provided by Medical Quality Assurance Commission]

Given that CHHH currently operates its facility under the acute care licensure, CHHH has the staff required for a licensed hospice care center under WAC 246-335-155 and WAC 246-335-175. CHHH provided a comprehensive plan to retain staff for the care center if this project is approved. [source: Application, pp17-18; January 13, 2006, supplemental information, p5-6 and Attachment 17]

Based on the information provided in the application, the department concludes there is reasonable assurance that CHHH would operate the proposed 12-bed hospice care center in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is met.

[5] Surveys conducted in years 2004 and 2005.
[6] Surveys conducted in years 2002, 2004, and 2005.

(4) *The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.*

CHHH states that continuity in the provision of health care was already accomplished when its 12-bed hospital was established in 1984. Further, hospice services are the least restrictive and intensive level of service available for end-of-life care. CHHH asserts that the conversion of the hospital's licensure from acute care to hospice care center more closely aligns to the fundamental philosophy and nature of hospice and enhances overall collaboration and efficiency. [source: Application p18]

Based on the above information, there is reasonable assurance that approval of the 12-bed hospice care center will not negatively affect the relationships in place with the existing health care providers in the service area. Further, approval of this project would continue to promote continuity in the provision of healthcare for the residents of Cowlitz County. This sub-criterion is met.

(5) *There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.*

This sub-criterion is addressed in sub-section (3) above and is considered met.

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed, the department determines that the cost containment criteria in WAC 246-310-240 are met.

(1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.*

Before submitting this application, CHHH considered retaining the current acute care licensure status for the facility. While the hospital has successfully operated under the acute care licensing standards, hospice care center licensure allows the facility to operate under the appropriate fundamental philosophical nature of hospice care. As a result, CHHH rejected the option of status quo. [source: Application, 20]

The department's review also concludes this project meets the criteria of financial feasibility, and structure and process of care, and further concurs with the applicant's rationale for submitting this application. The department concludes that this project is the best available alternative and this sub-criterion is met.